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Monthly roundup | Real estate

August 2020

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Winners and losers in July

Best performing companies in price terms in July

	(%)
AEW UK REIT	18.9
UK Commercial Property REIT	14.9
Schroder REIT	14.5
Empiric Student Property	11.4
Palace Capital	10.6
LondonMetric Property	9.7
Triple Point Social Housing REIT	9.2
RDI REIT	8.5
SEGRO	8.3
CLS Holdings	5.5

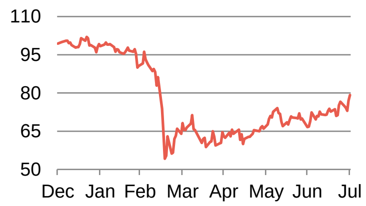
Source: Bloomberg, Marten & Co

Worst performing companies in price terms in July

	(%)
Hammerson	(20.0)
Countryside Properties	(14.4)
U and I Group	(14.0)
Real Estate Investors	(13.4)
Tritax EuroBox	(11.8)
St Modwen Properties	(10.9)
Drum Income Plus REIT	(10.0)
Alternative Income REIT	(8.4)
Panther Securities	(8.2)
BMO Commercial Property Trust	(7.1)

Source: Bloomberg, Marten & Co.

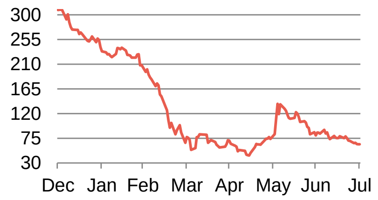
AEW UK REIT share price YTD



Source: Bloomberg, Marten & Co

A number of REITs and property companies saw big share price gains over the month of July as covid-19 restrictions started to ease across the UK and greater economic stimulus was revealed. The biggest mover was AEW UK REIT. The company, which has a diverse portfolio worth £171.5m, posted a positive NAV move for the quarter to the end of June and has maintained its dividend. Fellow diversified trusts UK Commercial Property REIT and Schroder REIT also saw double digit gains in their share price during the month. The share price of generalist property companies that hold a portfolio of diverse property assets have taken a big hit during the pandemic and the discount to NAV on these two funds has perhaps proved too great to ignore. Two logistics-focused companies, LondonMetric Property and SEGRO, continued to see demand for their shares grow – buoyed by the positive sentiment in the real estate sub-sector. In the past three months LondonMetric has seen its share price rise 18.9% and SEGRO by 16.8%. RDI REIT continued its share price bounce off the back of majority investor Redefine's sale of its near 30% stake to private equity group Starwood Capital.

Hammerson share price YTD



Source: Bloomberg, Marten & Co

Retail landlord Hammerson continued to see its share price fall during July and has now lost 79.2% of its value in the year to date – the worst in the real estate sector. The company, which owns shopping centres, retail parks and premium outlets in the UK, Ireland and France, announced meagre rent collection figures for the second quarter. Regeneration specialist U and I Group saw its share price fall 14% in the month and is now down 61.8% in the year to date. During the month it reported full year results in which its NAV plummeted 19.7%. St Modwen Properties, which owns and develops residential and logistics assets, also reported results in which its NAV slid 12.6% due mainly to pressures on land values. The group saw its share price fall 10.9% in July and is down 38% year to date. Tritax EuroBox, owner of logistics warehouses across Europe, was a surprise entry in the biggest share price fallers – seeing its share price drop 11.8% in July. In the last three months its share price has grown 7.1% after a surge in demand for space from e-commerce companies. BMO Commercial Property Trust rounds off the list, with its largest asset – a central London retail and restaurant quarter – weighing on performance.

Valuation moves

Company	Sector	NAV move (%)	Period	Comment
Primary Health Properties	Healthcare	1.1	Half-year to 30 June 20	Value of property portfolio increased by 0.4% to £2.514bn
AEW UK REIT	Diversified	0.3	Quarter to 30 June 20	Portfolio fell in value by 1.6% to £171.5m. NAV increased due to profitable sale of largest asset
GCP Student Living	Student accommodation	0.1	Quarter to 30 June 20	Property portfolio valuation increased 0.5% to £1.0bn
Ground Rents Income Fund	Residential	(1.1)	Half-year to 31 March 20	Portfolio value slightly down by 0.2% to £122.6m
Picton Property	Diversified	(1.3)	Quarter to 30 June 20	Property portfolio valuation down 0.8% to £648.9m
Unite Group	Student accommodation	(2.3)	Half-year to 30 June 20	Portfolio fell in value by 2.6% during the period to £5.154bn
BMO Real Estate Investments	Diversified	(3.1)	Quarter to 30 June 20	Portfolio fell in value by 2.5% to £312.3m
Schroder REIT	Diversified	(3.4)	Quarter to 30 June 20	Value of portfolio fell by 2.7% to £395.4m
Custodian REIT	Diversified	(5.8)	Quarter to 30 June 20	Value of portfolio fell by 4.2% to £533.7m
Palace Capital	Diversified	(10.6)	Full year to 31 March 20	Portfolio valuation down 5.7% to £277.8m
St Modwen Properties	Diversified	(12.6)	Half-year to 31 May 20	Portfolio valuation down 12.1% to £1.4bn, mainly due to pressures on land values
U and I Group	Development	(19.7)	Full year to 31 March 20	Investment portfolio fell in value by 7.9% to £130.6m

Source: Marten & Co

Corporate activity in July

Primary Health Properties raised £140m in a share placing "to further accelerate growth by funding near-term portfolio expansion, forward funded developments and asset management projects". A total of almost 96.5 million shares were placed at a price of 145 pence, representing a discount of 1.9% to the closing price on 8 July 2020 and a 33% premium to NAV.

Aberdeen Standard European Logistics Income issued 5 million new shares at a price of 104 pence, raising £5.2m. Following a similar issue in June, the company has raised £10.45m for potential acquisitions.

Grit Real Estate completed its delisting from the Johannesburg Stock Exchange, making London its primary listing and Mauritius its secondary.

Helical secured a £140m facility from Allianz to finance the development of the 10-storey office building 33 Charterhouse Street in Farringdon, London. The facility has a four-year term, with the option to extend to a fifth year. It is anticipated that the first drawdown will be in Q3 2020, from which point all future development costs will be fully funded by the facility, and construction is expected to complete in 2022.

Supermarket Income REIT secured a new £60m revolving credit facility (RCF) with Wells Fargo for an initial five-year term. The RCF, which has a margin of 2% above 3-month Libor, also includes a £100m accordion option.

Residential Secure Income entered into a £300m, 45-year secured debt facility with the Universities Superannuation Scheme. The RPI-linked debt has an annual coupon of 0.461% and will be interest only for the first three years.

Schroder REIT's fund manager Duncan Owen will step down as global head of real estate at Schroders at the end of the year. From next year he will become a special advisor to the company.

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July's major news stories – from our website

Top 10 stories

- **Where are the property bargains?**

With so many REIT's having de-rated heavily, sifting out the companies that were swept along in the coronavirus slump and left with unmerited discounts is fraught with danger. QuotedData looks at the companies that are still languishing on heavy and possibly unjustified discounts.

- **LondonMetric intends to increase dividend after strong rent collection**

LondonMetric said it intends to increase its first quarterly dividend for the financial year ending 31 March 2021 after announcing it had collected 95% of its June quarter rents, with a further 3% expected to be received imminently.

- **Supermarket Income REIT adds Tesco site to portfolio …**

Supermarket Income REIT acquired a Tesco Extra store in Newmarket, Suffolk, for £61m, representing a net initial yield of 4.6%. Tesco's lease at the 68,000 sq ft supermarket runs for another 16 years with annual, upward-only, RPI-linked rent reviews.

- **… after buying Waitrose portfolio in a £74.1m deal**

Supermarket Income REIT acquired a portfolio of Waitrose supermarkets in a sale and leaseback deal with the grocer for £74.1m. The portfolio comprises six freehold supermarkets let to Waitrose on new 20-year leases with a tenant-only break option in year 15 and are subject to five-yearly, upward-only, CPIH-linked rent reviews.

- **LXI REIT forward funds Lidl foodstore and sells social housing assets**

LXI REIT exchanged contracts on the forward funding acquisition of a Lidl foodstore in Barnard Castle, County Durham, for £7.5m. It also sold two portfolios of long-let social housing assets for £10.7m.

- **CLS Holdings sells Albert-Einstein-Ring office in Hamburg for €36.45m**

CLS Holdings exchanged contracts to sell the Albert-EWinstein_ring office complex in Hamburg for €36.45m, with completion expected on 30 September 2020. The sale of the 144,441 sq ft scheme is at a 38% premium to the 31 December 2019 book value and reflects a 3.6% net initial yield.

- **RDI REIT fully lets industrial development scheme**

RDI REIT let its recently completed 168,154 sq ft industrial and distribution development at Link 9, in Bicester, to electric van maker Arrival Automotive. Arrival now occupies 288,000 sq ft across two units at the scheme paying a total annual rent of just over £2.3m. The development and subsequent lettings have achieved a 7.5% yield on cost.

- **Stenprop sells Berlin retail park for €27m**

Stenprop exchanged contracts to sell the Neucölln Carrée retail park in Berlin for €27m. The disposal to Union Investment reflects a €3.6m premium to the 31 March 2020 book value and is the latest step in Stenprop's transition into a fully-focused UK multi-let industrial property company. Following the deal, multi-let industrial will make up 60% of the portfolio.

- **Alternative Income REIT expects 84% rent collection rate for Q3**

Alternative Income REIT said it expects to collect at least 84% of rent for the current quarter by September. This would be an improvement on the rent collection for the previous quarter, which stood at 82%.

- **Regional REIT completes series of lease renewals**

Regional REIT completed eight lease renewals across office, retail and warehouse assets amounting to more than £500,000 in annual rents and at a combined uplift of 20.2% to estimated rental values (ERV).

Visit www.quoteddata.com for more on these and other stories plus in-depth analysis on some funds, the tools to compare similar funds and basic information, key documents and regulatory news announcements on every real estate company quoted in London

Managers' views

A collation of recent insights on real estate sectors taken from the comments made by chairmen and investment managers of real estate companies – have a read and make your own minds up. Please remember that nothing in this note is designed to encourage you to buy or sell any of the companies mentioned.

Diversified

Custodian REIT

Richard Shepherd-Cross, investment manager:

While greater clarity is emerging on the medium-term picture for rent collection, there has been limited transactional evidence in the market, creating a difficult environment in which to provide valuations. The RICS continues to recommend the imposition of a 'material uncertainty' caveat against the valuation of all but industrial and logistics properties to reflect the limited evidence available. With limited transactional evidence, the valuation profession is trying to reflect market sentiment in valuations by applying a risk factor to the collection of deferred rent or rents due from tenants which may be disproportionately affected by the COVID-19 pandemic. The consequential decline in NAV is perhaps inevitable but not, we believe, an irrecoverable structural shift. As improvements in the prevention of COVID-19 (and care for those who catch it) continue we expect that demand from occupiers for commercial real estate will improve from occupiers and the risk factor applied to rents within valuations will dissipate.

As we see increasing confidence in the collection of contractual rent and landlords recover their ability to formally pursue non-payers is re-instated by Government, positive sentiment towards commercial real estate investment is likely to return. The low return environment, where dividends are under pressure across all investment markets, should put the relatively high dividends from real estate, even if at subdued levels compared to previous years, in focus for income-driven investors.

St Modwen Properties

Rob Hudson, interim chief executive:

The long-term structural growth drivers supporting the industrial/logistics and residential markets remain positive and arguably have strengthened even further. Government policy remains supportive for housebuilding in particular, as shown by the recently announced increase in stamp duty threshold, proposals to simplify planning and plans to stimulate investment in the regions, where most of our activity sits. Still, near-term economic risks remain elevated, as the pandemic adds to the pre-existing uncertainties around Brexit, with the UK having formally left the EU in January and the current transition period set to end in December.

Palace Capital

Neil Sinclair, chief executive:

We believe that companies will now examine whether they need to lease expensive offices, or as much office space, in and around London. One of the advantages of the regions is that rents are relatively modest compared to London, while the cost of living is lower, and the quality of life considered high. Prior to covid-19, several companies had already relocated out of London including Talk Talk (Salford), Burberry (Leeds), Channel 4 (Leeds) and Hiscox (York).

In the current climate our view is that companies and the public sector will be very cost conscious, therefore we are reasonably confident that a sizeable proportion of our office vacancy will be let during this financial year.

Student accommodation

Unite Group

Richard Smith, chief executive:

We have growing visibility and confidence over our income for the 2020/21 academic year, reflective of the strength of our university relationships and demand from UK students. There remains a higher risk than usual of cancellations to reservations by international students for 2020/21 and we continue to closely monitor the risks surrounding a potential second wave of covid-19.

Moving forward, we expect strong student demand in 2021/22 bolstered by an enhanced campus experience, a significant recovery in international student numbers as well as an increase in the 18-year-old population. Participation rates also continue to grow, reflecting the value young adults place on a higher level of education and the financial stability it offers. We anticipate a continued flight to quality by students, with government policy expected to focus on the quality and value of courses. Through our increasing strategic alignment to high and mid-ranked universities, which account for 88% of our income, the company is well positioned for anticipated growth in student numbers over the next decade.

A return to growth in student numbers from 2021/22 is supportive of a positive rental growth outlook for our portfolio. This reflects the value-for-money offered by our high quality, affordable accommodation and a growing opportunity to capture market share from the 855,000 student beds in houses of multiple occupancy (HMOs).

Healthcare

Primary Health Properties

Steven Owen, chairman:

Healthcare provision in the UK has been transformed in the first six months of 2020, as the NHS has responded to the requirements of dealing with the covid-19 pandemic. The resultant backlog of non covid-19 treatments that have been suspended will need to be addressed, with many services expected to move away from hospitals and into primary care facilities. This trend will undoubtedly require substantial investment into other areas, most notably primary care that will be able to take on the non-urgent and periphery procedures. We will continue to actively engage with government bodies, the NHS, HSE in Ireland and other key stakeholders to establish and enact where we can support and help alleviate increased pressures and burdens currently being placed on healthcare networks.

In addition to the covid-19 pandemic, the final outcome and consequences of Brexit for the UK are unlikely to have a direct impact on the primary health centres we invest in, which perform a vital role in the provision of healthcare across the UK and Ireland. Demand for our properties is driven by demographics and in particular populations that are growing, ageing and suffering from more instances of chronic illness.

Despite the continued volatility in the economic and political environment and the prolonged era of low interest rates, there continues to be an unrelenting search for secure and reliable income. Primary healthcare, with its strong fundamental characteristics and government-backed income, has been a significant beneficiary. The UK market for primary healthcare property investment continues to be highly competitive with strong yields and prices being paid by investors for assets in the sector with yields maintained during the first half of 2020.

Development

U and I Group

Matthew Weiner, chief executive:

What is clear is that the timing of gains is difficult to predict in current, extraordinary, market conditions. However, what is equally clear is that the latent value of U+I's portfolio is significant and the type of regeneration we deliver will be crucial to the UK's economic recovery following covid-19.

We have one of the most successful track records in our industry of delivering wider economic and social benefit from Public Private Partnership. Our success in delivering for our public sector partners as we emerged from the financial crisis 12 years ago, set the basis for our experience and capacity to deliver impactful regeneration. As we move into a major recovery phase in our economy post covid-19 and prepare for the opportunities that Brexit will offer, we are better placed than many in our industry to hold out our hand to national and local government and offer them a business model that unlocks the value in their derelict and overlooked land through successful partnership.

Upcoming events

- NewRiver REIT 2020 AGM, 14 August 2020
- UK Commercial Property REIT 2020 AGM, 27 August 2020
- Custodian REIT 2020 AGM, 1 September 2020
- Civitas Social Housing 2020 AGM, 8 September 2020

Publications


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Initiation | Real estate 15 July 2020

Grit Real Estate Income Group

Africa, substantially de-risked

An initiation note on Grit Real Estate Income Group (GR1T). The pan-African real estate company offers investors access to the significant growth potential of the continent in a de-risked manner through the leasing of property to blue-chip multinational corporations.


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Annual overview | Property 2 June 2020

Aberdeen Standard European Logistics Income

Resilient to covid-19

An annual overview note on Aberdeen Standard European Logistics Income (ASLI). The logistics sector has been fairly resilient to the impact of covid-19 while longer-term structural changes to the sector, such as ecommerce penetration, has gathered momentum.


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Update | Real estate 15 April 2020

Civitas Social Housing

Proved its mettle

An update note on Civitas Social Housing (CSH). The company has been one of the best performing REITs and property companies during the covid-19 pandemic, owing to its indirect government-backed leases.


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Update | REITs 13 February 2020

Standard Life Investments Property Income Trust

Adding value in cautious times

An update note on Standard Life Investments Property Income Trust (SLI). The company has been focused on good portfolio management during an uncertain market by disposing of more risky assets and buying high yielding property with rental growth potential.

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